

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

FEBRUARY 7, 2018

I. CALL TO ORDER

Committee Chair Michael McEnerney, called the meeting to order at 12:27 p.m. on Wednesday, February 7, 2018, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2420 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Michael McEnerney, Committee Vice Chair Randy Moore; Regent Norma Doctor Sparks; Regent Wayne Higaki.

Committee members excused: Regent Jeffrey Portnoy

Others in attendance: Board Chair Jan Sullivan; Regent Simeon Acoba; Regent Eugene Bal; Regent Brandon Marc Higa; Regent Lee Putnam; Regent Douglas Shinsato; Regent Michelle Tagorda; Regent Stanford Yuen (ex officio committee members); President/Interim UH-Mānoa (UHM) Chancellor David Lassner; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Information Technology/Chief Information Officer Garret Yoshimi; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; UH-West O'ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary to the Board of Regents Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE DECEMBER 7, 2017 MEETING

Committee Vice Chair Moore moved to approve the minutes of the December 7, 2017 meeting, seconded by Regent Doctor Sparks, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary to the Board Kendra Oishi announced that the Board Office received no written testimony, and no individuals had signed up to give oral testimony.

IV. AGENDA ITEMS

Committee Chair McEnerney suggested that the agenda be reordered to take up agenda items A.4. & B.3. first, there were no objections.

A. For Action

4. Review & Acceptance of the University of Hawai'i at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2017 Football Season

External Auditor Cory Kubota submitted for acceptance the audit report required by the National Collegiate Athletic Association (NCAA) to confirm the program is in compliance in meeting the minimum home attendance requirements, with no exceptions noted.

Committee Vice Chair Moore moved to accept the UH at Mānoa Intercollegiate Report on Agreed Upon Procedures – 2017 Football Season, seconded by Regent Doctor Sparks.

Discussion ensued regarding the reason for low attendance at the November 11, 2017 game. Possible reasons provided were inclement weather and it being a holiday.

There being no further discussions and a motion having been moved and seconded, the motion was put to a vote and the motion carried unanimously.

B. For Information

3. Board Education Session – Walkthrough of Hawai'i Consolidated Financial Statements

External Auditor Cory Kubota gave a presentation on the purpose of UH's consolidated financial statements that included an explanation of the following documents: Management's Discussion & Analysis; Statement of Net Position; Statement of Revenues, Expenses & Changes in Net Position; Statement of Cash Flows; Notes to the Consolidated Financial Statements; and Required Supplementary Information Other Than Management's Discussion & Analysis.

Discussions ensued regarding concern over the difference in end of year balances on the Statement of Cash Flows; whether the liability for retirement benefits was shared with the state; and the diversity of UH's investment portfolio.

Mr. Kubota explained that the statement of cash flows shows operating cash available to the university, and approximately \$38 million was allocated to investments and \$51 million was spent on capital-related financing activities. There is a big difference in the year end balances, but the statement of cash flows shows how the cash was spent. The university has a very diverse portfolio, and part of the investments included the UH Foundation and the endowment. The retirement benefits reflected in the financial statements show the university's portion of overall state obligation for this benefit, but benefits are paid by the state.

A. For Action (continued)

1. Review & Acceptance of the Associated Students of the University of Hawai'i at Mānoa Financial Statements & Management Letter for the Year Ended June 30, 2017

David Estes, Auditor with the UH Office of Internal Audit presented for acceptance the Associated Students of the University of Hawai'i (ASUH) Mānoa Financial Statements & Management Letter for the Year Ended June 30, 2017. The ASUH Constitution requires an annual audit and a financial statement review every three years. The review is substantially less in scope than an audit, but they do take into consideration operational and compliance activities. The management letter contains a recommendation related to compliance with investment policies during a period when there was not an investment consultant. Management's response contained an explanation of how the situation came about and the corrective action plan going forward.

Questions were raised and discussion ensued regarding the reason for there being no comparison of investment returns for similar portfolio structures or spending rate; the difficulty of maintaining continuity over the portfolio given the turnover in ASUH leadership; what ASUH would recommend in terms of mechanism, procedure, or process to ensure ongoing supervision and monitoring of the portfolio; whether it would make sense to have the stadium stock fund and legacy endowment portfolios managed together; the lack of a deadline in the corrective action plan for ASUH to find an active investment manager; whether the training ASUH leadership received in association with this project was helpful; what advice ASUH would give to future leaders; whether ASUH or the board owned the portfolio; how impressed the board had been by the thorough work and presentation by ASUH leadership when they came before the board for approval of the selected investment managers and fund investments for the ASUH stadium stock fund; and discussion regarding whether board policy should be amended to allow this type of transaction to be delegated to ASUH.

ASUH explained that during the period in question, the portfolio was with Bank of Hawai'i, and ASUH subsequently negotiated a contract with a new financial advisor. ASUH expressed concerns over managing the stadium stock fund and legacy endowment portfolios together, and noted that the current investment advisor was encouraging them to revise board policy to allow ASUH to manage their own affairs and create their own policies regarding the portfolio instead of having to go through the bureaucratic process of obtaining board approval. ASUH is working on policy proposals to bring back to the board in the future.

Committee Chair McEnerney clarified that only the review of financial statements was before the committee, and the committee would not be directly participating in a change in policy. He also noted there was a two year gap in getting an investment advisor, but once Graystone Consulting was selected, the approval went before the Budget & Finance Committee in October and the Board in November, so the major delay was not a function of the board approving the investment advisor.

Committee Vice Chair Moore moved to accept the ASUH at Mānoa Financial Statements & Management Letter for the Year Ended June 30, 2017, seconded by Regent Higaki, and the motion carried unanimously.

2. Review & Acceptance of the University of Hawai'i Review of Employee Cell Phone Charges

David Estes, Auditor with the UH Office of Internal Audit, presented for acceptance the UH Review of Employee Cell Phone Charges that was requested by UH administration, and management's response. There is no current UH cell phone policy, whereas comparable peer institutions have established a formal cell phone policy. The lack of policy has led to inconsistencies across the System.

Administration indicated appreciation for internal audit taking this project on with such short notice, and noted that it stemmed from information and data on another audit related to check disbursements less than \$2,500, which showed a fair amount of disbursements for cell phone providers. Administration is prepared to undertake the process to create a policy that adheres to best practices for similar organizations without impeding current field operations, and establishes sound practices on how to evaluate employees who utilize cell phones.

Discussion ensued regarding there being no employees at Leeward, Windward, and Kaua'i Community Colleges using university cell phones during FY2017; why the university did not have a single service provider; and the option of employees using personal cell phones since most individuals own one.

Mr. Estes explained that in FY2017 there were no employees at Leeward, Windward, and Kaua'i Community Colleges using university cell phones. UH does not have a single service provider primarily because there is no foundational process or policy around cell phones, due to procurement-related issues. There are potential economies of scale and efficiencies available from having a cell phone usage and procurement policy.

Committee Vice Chair Moore moved to accept the UH Review of Employee Cell Phone Charges, seconded by Regent Doctor Sparks, and the motion carried unanimously.

3. Review & Acceptance of the University of Hawai'i at Mānoa Outreach College Financial & Operational Review

David Estes, Auditor with the UH Office of Internal Audit, presented for acceptance the UHM Outreach College Financial & Operational Review and management's response.

Questions were raised and discussion ensued regarding the net cash flow not being allocated back to the division/school providing the facilities; the utilization of lecturers vs. full-time faculty; full-time students having to pay additional tuition for Outreach College classes; how Outreach College assures that credit classes are equivalent to classes offered at the regular UHM campus; what UHM Outreach College attributes its success to; and how other programs might be more profitable if operated under this type of model.

Dean Bill Chismar explained that Outreach College pays utilities on office space and two classrooms they utilize through the surplus tuition revenue that goes back to the UHM Chancellor's office. The surplus was in lieu of an alternative model such as taking a fee off the top of all revenues to cover overhead. All lecturers are paid based on collective bargaining agreement rates, with consideration being given to experience. He noted that the scope of the problem regarding full-time students having to pay additional tuition for Outreach College classes has been identified, and there is an agreement that these

students should not have to pay for classes that are part of the regular program. He is working with the UHM vice chancellors on a formula or approach for doing this, which will be a combination of moving some classes out of Outreach College and into the regular day school, and tracking students so this will not happen in the future. The majority of students taking classes at Outreach College are part-time students taking less than 12 credit hours per semester, and there is no cost differential for these students, only the full-time students are paying additional tuition. The Outreach College does not have the authority to create its own credit courses or degree programs; all for-credit classes and programs and hiring of faculty to teach for-credit courses are done in partnership with the academic unit. Interim UHM Chancellor Lassner noted that the tuition return model is intended to get closer to what Outreach College does, which is return tuition to the units that generated it.

It was noted that the Outreach College has done a fantastic job of supporting programs that might not otherwise have started, but they have also not had to bear the indirect costs that a program might incur if it started up within the regular UHM day school. There are disadvantages to running parallel programs with parallel modes of delivery, especially for programs that overlap with the regular UHM day school, and this audit will be very useful in figuring out what can be done without damaging programs that are serving unique populations.

Committee Vice Chair Moore moved to accept the UH at Mānoa Outreach College Financial & Operational Review, seconded by Regent Doctor Sparks, and the motion carried unanimously.

5. Review & Acceptance of Check Disbursements Less Than \$2,500

Due to time constraints, this item was deferred. There were no objections.

4. Regent Doctor Sparks left at 1:50 p.m., quorum was maintained.

B. For Information (continued)

1. Whistleblower Report

The committee reviewed the latest draft report that collected complaints made to date and status, including a summary of the types of complaints made. There are several older cases at Kapi'olani Community College: the chancellor will be rendering a decision soon for one, the vice chancellor will be rendering a final decision for the other, and one has been delayed due to additional related complaints requiring additional investigation. There is an open case involving an HR matter at UHM that is currently under investigation.

2. Enterprise Risk Management Update – Overview of Cybersecurity at University of Hawai'i

VP Yoshimi explained that a recently issued report by EDUCAUSE Center for Analysis & Research identified cybersecurity as the number one issue of the Top 10 IT Issues facing higher education institutions. Administration is working on updating and

revising executive policies in this area. He reviewed the staffing & resources dedicated to security within the IT organization that fall under the Office of Chief Information Security Officer, and first line responders in the Client Services & Operation Center that provide 24/7 manned response. Staffing and training are continually updated in this area to be able to respond in a timely manner, and technical staff is well connected to various national organizations and peers that provides UH with a network of intelligence. Having the security program within the IT organization allows them to commandeer additional technical resources when incidences occur.

Board Chair Sullivan left at 1:54 p.m.

Discussion ensued regarding the need for a board policy on cybersecurity governance; and whether sources of compromises have been from internal or external sources, and what types of testing or training is being done to prevent this happening.

Chair McEnerney indicated that he had requested the Chair of the Committee on Personnel Affairs & Board Governance Committee to address this policy. It was noted that Regents Policy 11.208, Information & Communication Technologies, gives the president the authority to do whatever is necessary to protect and ensure the availability of information and technology resources, which enables the executive policies and actual practices. Data classification is done at the executive policy level.

VP Yoshimi explained UH had done occasional focused phishing simulations to test various parts of the organization but to help with education. If done too often then everyone ignores the message. IT does try to send communications on a regular basis that are more focused and pointed on the nature of what is going on.

V. ADJOURNMENT

There being no further business, Committee Vice Chair Moore moved to adjourn, and Regent Higaki seconded, and with unanimous approval, the meeting was adjourned at 2:10 p.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
to the Board of Regents